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MICC 1969 ANNUAL REPORT

The Mortgage Insurance Company of Canada

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Aluminum Company of Canada
Montreal, Quebec

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Air Canada
Montreal, Quebec

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Greenshields Incorporated
Montreal, Quebec

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EXECUTIVE OFFICERS

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Vice-President
C. W. JAMESON

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D. C. TOMS

President and General Manager
GARDNER ENGLISH

Vice-President
R. T. RYAN

Assistant Vice-President
J. McAVOY

PRESIDENT'S REPORT

The close of 1969 marked the fifth full year of operations of The Mortgage Insurance Company of Canada. The company has become established as a significant entity in mortgage finance in Canada during its relatively short history. Satisfactory growth has been achieved despite problems of money supply and sharply rising interest rates during most of this five year period.

In the year under review the company made important gains in several aspects of its operations. The most important of these were increases in insurance in force, earned premium, net earnings and total assets. Insurance in force rose by $22,000,000 to $265,000,000 and earned premium income, which is the principal gross revenue figure in the accounts of the company, increased from $465,555 to $500,321.

Net earnings after payment of all taxes increased from $275,972 to $305,304. Total assets stood at $8,579,000 compared with $7,540,000 at the end of 1968.

Gross premiums on new business written during the year showed a decline from $802,000 to $555,000. The decline was occasioned principally by lack of funds of a number of our approved lenders for high ratio mortgages which is our most important source of mortgage insurance premium. The decline was most marked in the latter part of the year and is continuing into early 1970. Exceedingly high interest rates — 10% to 11% — continue to prevail in the Canadian mortgage market. This inhibits home ownership for thousands of young families who might otherwise use our services. Fortunately, there are some modest signs that a plateau in interest rates may have been reached and easier money may be a reality by the last half of 1970.

All of the insurance written by the company is on a single premium basis for a policy term of 15 years. A portion of premiums written is taken into current income, the balance being deferred as Reserve for Unearned Premium. This treatment shields the annual income of the company from the effect of excessive swings in gross business written on a year to year basis. As noted above, earned premium for the year showed a satisfactory increase.

As additional protection to its policyholders the company maintains a Policy Reserve. Credits are transferred to this reserve annually equal to one half of earned premium after the second policy year. Credits to this reserve amounted to $157,000 and the reserve totalled $382,000 at the year end.

Insurance in Force, as used in the company's accounts, represents the total face value of mortgages insured. Under the terms of the policies issued by the company, liability may be restricted to 20% of the face amount of mortgage insured.

Investments

The investment policy of the company is dictated to a large degree by the need to maintain assets which may be realized readily to meet claims. A substantial portion — about one third — of the investment assets are invested in Government of Canada or government guaranteed obligations. Rising interest rates over the past three years have indicated the wisdom of devoting cash flow to short maturities. A modest increase has been made in the equity section of the portfolio which is invested in high grade preferred and common stocks.

Price weakness in the bond market, which has been the result of the rising interest rate curve, caused a further increase in market deficit in the security portfolio. In view of the long term nature of the company's liabilities and the investment quality of portfolio securities the current market deficit is not considered serious. The investment portfolio of the company at December 31, 1969 is tabulated as follows:

Government of Canada and Government Guaranteed Bonds	$3,145,550
Provincial and Municipal Bonds	2,906,919
Corporate Bonds	1,682,169
Preferred Stocks	889,335
Common Stocks	392,558
Total	$9,016,531

Investment rate of return for the year was 5.9%.

Underwriting and Claims

Since the company commenced operations in 1964 our underwriting experience has been excellent. Net claims costs for the year amounted to $3,524. As pointed out in previous reports, favourable claims experience is to be expected in times

of prosperity and full employment. The management of MICC is cognizant of the fact that the recent economic conditions have been conducive to a low rate of mortgage defaults and larger losses may well appear in the years ahead. Underwriting of risks continues to be carefully carried out on a case by case basis with no relaxing of sound standards of appraisal analysis and credit assessment. Loans in default during the year averaged less than .25% and at the year end the ratio was .23%.

Average single family mortgage approved for insurance during the year was $25,003 on new houses and $20,045 on existing properties.

An important test of ability of mortgage borrowers to meet their housing obligations is the ratio of mortgage payment, including taxes, to income. The average ratio on new loans approved in 1969 was 21.2% compared with the generally accepted maximum ratio of 27%.

Services Offered to the Public

During the year our group of Approved Lenders was increased by four financial institutions — three trust companies and one life insurance company. Also, two new Approved Correspondents (firms with facilities for mortgage banking) were appointed. MICC now has 38 Approved Lenders and 8 Approved Correspondents.

While the main operation of the company continues to be the insurance of mortgage loans on single family urban dwellings, our services have been further extended to other classes of mortgage security. Mortgage loan insurance was introduced on commercial and industrial property for the first time. Loans on this type of real estate are insured to a limit of 75% of value and a maximum of $750,000.

Favourable loss experience has made it possible to reduce premium rates on several classes of mortgage insurance underwritten by the company. The most important reductions were in premiums for high ratio house loans which were reduced to 1½% and premiums on house loans not exceeding 75% of value which were reduced to .8%. These developments are indicative of the intention of MICC to continually broaden and improve financing facilities for the mortgage borrower in Canada.

Capital Structure

Continued growth of insurance in force during the year required an increase in capital funds. This was realized by the exercise of a stock option and a call on the unpaid capital stock, resulting in an increase of $629,000 in Capital and Contributed Surplus. After addition of 1969 earnings and adjustment of the securities portfolio in accordance with statutory requirements total shareholders equity was $4,774,919 compared with $3,924,582 at the end of 1968.

During the year the company became a wholly owned subsidiary of Holborough Investments Limited as a result of a share exchange offer of that company. The shareholders of Holborough Investments Limited now include Air Canada, Aluminum Company of Canada, Ltd., The Bank of Nova Scotia, Canadian Enterprise Development Corporation Limited, Canadian National Railway Company, Canadian Pacific Investments Limited, Greenshields Incorporated, Mortgage Guaranty Insurance Corp. and The Toronto-Dominion Bank.

Federal Legislation

The Parliament of Canada has amended the statutes governing federally chartered insurance companies, loan and trust companies and the chartered banks. Amongst other changes, provision was made for such companies to make mortgage loans in excess of 75% of value of underlying real estate provided the excess amount is insured by a government agency or a private mortgage insurance company licensed under the federal insurance act. The Mortgage Insurance Company of Canada qualifies as such a company. These amendments will make it possible for approved lenders with federal charters to insure high ratio loans directly with the company without the use of the joint loan technique which has been employed by lenders insuring loans with MICC in the past. It will be the policy of the company to provide mortgage insurance on either the joint loan method previously used or direct insurance depending on the wishes of the prime lender.

The foregoing legislation changes apply only to companies with federal charters. The government of one of the provinces has announced that similar legislation will be introduced for provincially chartered companies within its jurisdiction. It is expected that the other provinces will find it desirable to make necessary amendments to provide necessary direct insurance powers for lending companies in the various provincial jurisdictions.

Housing and Mortgage Market Outlook

The year 1969 was a very buoyant one for the housing industry in Canada. New single family and apartment units were started to the number of 210,000 which was a record year. This pace was in keeping with the annual average of 200,000 new dwellings which the Economic Council of Canada has indicated as a minimum to meet Canadian needs. It is of interest to note that this achievement took place in a climate of high interest rates and advancing building and land costs.

With this record year behind us, what are the prospects for 1970? First, and foremost, is the fact that housing needs of the nation are as high as ever. New family formation plus the construction necessary to improve shelter for some 300,000 Canadian families who live in substandard accommodation clearly emphasize the bare demands for new shelter. However, effective demand is inhibited by cost factors which are showing little evidence of alleviation. It is well known that material and labour costs are continuing their upward trend. Land for both houses and apartments grows scarcer in large urban areas and thus more expensive. The cost of borrowed money seems to have moderated to a degree but is at a high level and the supply of mortgage funds is not abundant. Other trends influencing demand are a declining birth rate, lower immigration and decrease in formation of non-family households. All of these effects are evident in a climate of mild recession and increasing unemployment. Considered together these elements indicate a less buoyant outlook for housing construction in 1970.

The foregoing observations apply with greater significance to the private sector of housing. The federal government has announced that more than $650 million of federal funds will be made available in 1970 for housing — chiefly for families of low income. This program is intended to encourage the construction of at least 35,000 units of housing under public sponsorship and will make an important contribution to housing needs of those in the lower income scale.

It is difficult to judge the probable overall achievement for the year in the new housing field. However, the adverse influences would seem to be strong enough to warrant the assumption that housing starts in 1970 might decline by as much as 15%. Such a result would mean that overall pent up demand will continue to be a critical fact in the economy and will prevent any marked drop in house prices and rents.

While the relative scarcity of funds and high interest rates still prevent the restoration of normal conditions in the mortgage market, it must be assumed that basic housing needs of the country will be met in the years ahead. It follows that financing will be provided to assure production of required shelter for Canadians. The mortgage insurance programs which MICC now offers, plus other types of related insurance now in the planning stage, will enlarge our capabilities for participation in housing and other real estate financing in the 1970's.

Gardner English

Gardner English
President and General Manager

March, 1970

MICC

The Mortgage Insurance Company of Canada

BALANCE SHEET AS AT DECEMBER 31, 1969

ASSETS

	1969	1968
	$	$
CURRENT ASSETS		
Cash	115,775	200,049
Premiums receivable	20,000	30,000
Interest accrued and sundry receivables	94,487	80,922
	230,262	310,971
SPECIAL REFUNDABLE TAX	4,094	5,341
INVESTMENTS		
Bonds, debentures and stock, at authorized value (note 1) .	8,145,753	7,035,000
Mortgages (note 2)	198,728	189,171
	8,344,481	7,224,171
	8,578,837	7,540,483

Signed on behalf of the Board,

GARDNER ENGLISH, Director.

W. J. DIXON, Director.

LIABILITIES

	1969 $	1968 $
CURRENT LIABILITIES		
Provision for claims	5,000	2,500
Accounts payable and accrued liabilities	12,366	22,086
Premium taxes	3,786	5,327
Income taxes	60,664	75,643
	81,816	105,556
RESERVES		
Reserve for unearned premiums	3,340,312	3,285,523
Additional policy reserve	381,790	224,822
	3,722,102	3,510,345

SHAREHOLDERS' EQUITY

	1969 $	1968 $
CAPITAL STOCK (note 3)		
Authorized — 50,000 shares of the par value of $100 each		
Issued and partly paid — 44,900 shares	4,490,000	4,290,000
Uncalled subscriptions	1,122,500	1,501,500
Paid-up capital	3,367,500	2,788,500
SURPLUS	1,407,419	1,136,082
	4,774,919	3,924,582
	8,578,837	7,540,483

MICC

The Mortgage Insurance Company of Canada

STATEMENT OF SURPLUS

For the Year Ended December 31, 1969

	1969	1968
	$	$
EARNED SURPLUS		
Balance — beginning of year	748,014	471,892
Net earnings for the year	305,304	275,972
Profit on sale of securities	56,965	150
Balance — end of year	1,110,283	748,014
CONTRIBUTED SURPLUS		
Balance — beginning of year	388,068	380,308
Premium received on shares issued (note 3)	50,000	157,500
	438,068	537,808
Write-down of investments to authorized value (note 1)	140,932	149,740
Balance — end of year	297,136	388,068
SURPLUS — END OF YEAR	1,407,419	1,136,082

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 1969

1. BONDS, DEBENTURES AND STOCK

   The company has changed the basis of valuing its bonds, debentures and stock in accordance with an amendment to the Canadian and British Insurance Companies Act. The amendment permits the company to value the investments at cost, minus the lesser of

   (a) the excess of cost over market value, or

   (b) the aggregate of ⅓ of the excess of cost over market value of each of the current and previous two fiscal periods.

   Had the company continued the practice of valuing investments on the basis of market value, the write-down for the current year would have been $572,535.

2. MORTGAGES

   Mortgage assets arise from resale of real estate acquired through payment of claims.

3. CAPITAL STOCK

   The authorized capital may be increased to 150,000 shares of the par value of $100 each. During the year an option for 2,000 shares was exercised for an aggregate consideration of $180,000 of which $130,000 was paid as to 65% of par value and $50,000 as a contribution to surplus. A second option for 100 shares was cancelled.

   A third call on capital of $10 per share was made by the Board of Directors on October 15, 1969, due and received on December 15, 1969.

MICC

The Mortgage Insurance Company of Canada

STATEMENT OF EARNINGS

For the Year Ended December 31, 1969

	1969 $	1968 $
INCOME		
Premiums earned	500,321	465,555
Less transfer to Additional Policy Reserve	156,968	122,686
	343,353	342,869
Application fees	12,479	23,548
Investment income after investment expenses	491,677	433,606
Total Income	847,509	800,023
EXPENSES		
Claims incurred	3,524	8,771
Insurance underwriting and policy issuance expenses	116,187	122,542
Premium taxes	11,102	16,045
Other operating expenses	154,392	154,193
Total Expenses	285,205	301,551
	562,304	498,472
PROVISION FOR INCOME TAXES	257,000	222,500
NET EARNINGS FOR THE YEAR	305,304	275,972

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of The Mortgage Insurance Company of Canada as at December 31, 1969 and the statements of earnings and surplus for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Company as at December 31, 1969 and the results of its operations for the year then ended, in accordance with accounting practices appropriate to the insurance laws of Canada applied on a basis consistent with that of the preceding year, except for the change in the method of calculating the carrying value of bonds, debentures and stock, as outlined in note 1, with which we concur.

McDONALD, CURRIE & CO.,
Chartered Accountants

Toronto, January 20, 1970

APPROVED LENDERS

Assumption Mutual Life Insurance Company

The Bank of Nova Scotia

The Canada Life Assurance Company

Canada Permanent Trust Company

The Canada Trust Company — Huron & Erie Mortgage Corporation

Canadian Premier Life Insurance Company

The Central Trust Company of Canada

Confederation Life Association

Crown Life Insurance Company

The Dominion Life Assurance Company

The Eastern Canada Savings and Loan Company

Equitable Life Insurance Company of Canada

The Excelsior Life Insurance Company

Fidelity Life Assurance Company

The Imperial Life Assurance Company of Canada

Industrial Life Insurance Company

Investors Syndicate Limited

The Laurentian Mutual Assurance Company

The Lincoln Trust and Savings Company

London Life Insurance Company

Metropolitan Life Insurance Company

Montreal Trust Company

The Mutual Life Assurance Company of Canada

National Trust Company Limited

North American Life Assurance Company

The Northern Life Assurance Company of Canada

Northland Trust Company

Norwich Union Life Assurance Society

Nova Scotia Savings & Loan Company

Rowcliffe Investments Limited

Standard Life Assurance Company

Sun Life Assurance Company of Canada

The Toronto-Dominion Bank

The Waterloo Trust and Savings Company

The Western Savings and Loan Association

Yorkshire Trust Company

APPROVED CORRESPONDENTS

Armstrong, Kemp, Young and Burrows

Bowes & Cocks Limited

Ker & Stephenson Limited

Kopas and Burritt Financial Agents Limtied

Harry LePage and Sons Limited

Marcil Mortgage Corporation

The Morguard Group

Pemberton, Holmes Limited

The Mortgage Insurance Company of Canada

INSURED MORTGAGE PROGRAMS

The Mortgage Insurance Company of Canada was incorporated by Act of Parliament in December, 1963. The company is authorized to underwrite contracts of mortgage insurance which indemnify mortgage lenders against investment loss on mortgage loans.

MICC insured loans are made by a number of financial institutions and mortgage agents or correspondents which have been designated as Approved Lenders or Approved Correspondents (see list on opposite page).

The company provides insurance coverage for first mortgages under three programs:

1. **Residential**

   Under the company's primary residential program, insurance coverage is available for high ratio loans up to 90% of value for houses and 85% for rental projects. MICC has a secondary residential insurance program of insuring 75% conventional mortgages which is of particular interest to pension funds and private investors.

2. **Commercial and Industrial**

   Under this program, insurance coverage is available on a wide variety of commercial and industrial real estate. Maximum loan to value ratio is 83⅓%.

3. **Vacation Home Properties**

   Under this program, insurance coverage is available for mortgages on good-quality vacation properties up to 75% of value.

Loans exceeding 75% of value can be made as joint loans provided by an Approved Lender and Central Covenants Limited, a separate mortgage investment company.

Alternatively, by virtue of legislation passed by the Parliament of Canada on March 12, 1970, federally-chartered banks, insurance companies and trust and loan companies are now authorized to make mortgage loans exceeding 75% of value provided the amount loaned in excess of 75% is insured by a government agency or by a private insurance company licensed under the insurance act. The Mortgage Insurance Company of Canada is an insurance company properly qualified under this legislation.

The Mortgage Insurance Company of Canada

Head Office • 401 Bay Street, Toronto, Ont.